



(Mark One)

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992 OR

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-6901

FORT HOWARD CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

39-1090992
(I.R.S. Employer
Identification Number)

1919 South Broadway, Green Bay, Wisconsin
(Address of principal executive offices)

54304
(Zip Code)

Registrant's telephone number including area code: 414/435 8821

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1992
Voting Common Stock, par value \$.01 per share	5,862,685

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PART I. FINANCIAL INFORMATION

FORT HOWARD CORPORATIONCONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)For The Three Months Ended
March 31,1992 1991(In thousands, except
per share data)

Net sales	\$276,266	\$272,954
Cost of sales	<u>170,101</u>	<u>172,655</u>
Gross income	106,165	100,299
Selling, general and administrative	26,105	24,824
Amortization of goodwill	<u>14,165</u>	<u>14,165</u>
Operating income	65,895	61,310
Interest expense	83,869	95,829
Other income, net	<u>(106)</u>	<u>(682)</u>
Loss before taxes	(17,868)	(33,837)
Income tax credit	<u>(476)</u>	<u>(10,233)</u>
Loss before equity earnings, extraordinary item and adjustment for accounting change	(17,392)	(23,604)
Equity in net loss of unconsolidated subsidiaries	<u>--</u>	<u>(6,936)</u>
Net loss before extraordinary item and adjustment for accounting change	(17,392)	(30,540)
Extraordinary item -- gain on debt repurchases (net of income taxes)	--	3,768
Adjustment for adoption of SFAS 106	<u>(10,587)</u>	<u>--</u>
Net loss	<u><u>\$(27,979)</u></u>	<u><u>\$(26,772)</u></u>
Earnings (loss) per share:		
Net loss before extraordinary item and adjustment for accounting change	\$ (2.96)	\$ (6.61)
Extraordinary item	--	.81
Adjustment for adoption of SFAS 106	<u>(1.81)</u>	<u>--</u>
Net loss	<u><u>\$(4.77)</u></u>	<u><u>\$(5.80)</u></u>
Average shares outstanding	<u>5,863</u>	<u>4,619</u>

The accompanying notes are an integral part of these consolidated condensed financial statements.

FORT HOWARD CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	<u>March 31,</u> <u>1992</u>	<u>December 31,</u> <u>1991</u>
	In thousands	
Assets		
Current assets:		
Cash	\$ 6,458	\$ 3,597
Receivables - net	103,351	90,248
Inventories	90,128	95,048
Deferred income taxes	<u>10,059</u>	<u>--</u>
Total current assets	209,996	194,893
Property, plant and equipment	1,521,157	1,487,893
Less: Accumulated depreciation	<u>394,122</u>	<u>378,806</u>
Net property, plant and equipment	1,127,035	1,109,087
Goodwill, net of accumulated amortization	2,061,360	2,075,525
Other assets	<u>87,278</u>	<u>90,297</u>
Total assets	<u>\$3,495,669</u>	<u>\$3,469,802</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 74,206	\$ 81,427
Interest payable	54,396	33,382
Income taxes payable	7,847	6,886
Other current liabilities	45,689	66,244
Current portion of long-term debt	<u>2,854</u>	<u>4,519</u>
Total current liabilities	184,992	192,458
Long-term debt	2,966,043	2,929,589
Deferred income taxes	262,932	262,376
Other liabilities	28,121	10,291
Voting Common Stock with put right	13,028	12,963
Shareholders' equity:		
Voting Common Stock	600,465	600,465
Non-Voting Common Stock	--	--
Cumulative translation adjustment	3,497	7,025
Retained earnings (deficit)	<u>(573,409)</u>	<u>(545,365)</u>
Total shareholders' equity	<u>30,553</u>	<u>62,125</u>
Total liabilities and shareholders' equity	<u>\$3,485,669</u>	<u>\$3,469,802</u>

The accompanying notes are an integral part of these consolidated condensed financial statements.

FORT HOWARD CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

For The Three Months Ended
March 31,

1992 1991

(In thousands)

Cash provided from (used for) operations:		
Net loss	\$ (27,979)	\$ (26,772)
Depreciation and amortization	36,719	46,324
Interest capitalized to long-term debt	29,448	33,452
Deferred income taxes (credit)	(9,503)	(6,443)
Employee stock compensation	237	314
Equity in net loss of unconsolidated subsidiaries	--	6,936
Pre-tax gain on debt repurchases	--	(6,078)
Pre-tax adjustment for adoption of SFAS 106	17,076	--
Increase in receivables	(13,103)	(11,024)
Decrease (increase) in inventories	4,920	(5,150)
Decrease in refundable income taxes	--	700
Decrease in accounts payable	(7,221)	(14,019)
Increase in interest payable	21,014	23,424
Increase (decrease) in income taxes payable	961	(3,507)
All other, net	<u>(20,268)</u>	<u>(23,267)</u>
Cash provided from operations	32,301	14,890
Cash used for investment activity -- Additions to property, plant and equipment	(40,840)	(26,967)
Cash provided from (used for) financing activities:		
Proceeds from long-term borrowings	198,000	57,200
Repayment of long-term debt	(192,600)	(110,009)
Issuance of common stock	--	59,166
Net cash provided from financing activities	<u>5,400</u>	<u>6,357</u>
Decrease in cash	(3,139)	(5,720)
Cash at beginning of period	<u>9,597</u>	<u>18,396</u>
Cash at end of period	<u>\$ 6,458</u>	<u>\$ 12,676</u>
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 31,539	\$ 37,539
Income taxes paid - net	488	306

The accompanying notes are an integral part of these consolidated condensed financial statements.

FORT HOWARD CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. **Basis of Presentation**

The consolidated condensed financial statements reflect all adjustments (consisting only of normally recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. These financial statements should be read in conjunction with the Company's annual report on Form 10-K for 1991.

2. **Earnings (Loss) Per Share**

Earnings (loss) per share is computed on the basis of the average number of common shares outstanding during the periods. The average number of shares outstanding for the three months ended March 31, 1992 and 1991 were 5,862,685 and 4,618,798, respectively.

3. **Inventories**

Inventories consist of:

	March 31, 1992	December 31, 1991
	(In thousands)	
Raw materials and supplies	\$42,741	\$48,236
Finished and partly-finished products	<u>47,387</u>	<u>46,812</u>
	<u>\$90,128</u>	<u>\$95,048</u>

4. **Property, Plant and Equipment**

Effective January 1, 1992, the Company prospectively changed its estimates of the depreciable lives of certain machinery and equipment. These changes were made to better reflect the estimated periods during which such assets will remain in service. For the three months ended March 31, 1992, the change had the effect of reducing depreciation expense by \$9.9 million and reducing net loss by \$6.1 million.

5. **Long-Term Debt**

During the three months ended March 31, 1992, the Company retired the remaining balance of its 7% Notes of approximately \$146.4 million from borrowings under its Revolving Credit Facility. At March 31, 1992, the available capacity under the Revolving Credit Facility was \$119.0 million.

Effective March 2, 1992, the Company redeemed its \$44 million, variable interest rate, Development Authority of Effingham County Pollution Control Revenue Refunding Bonds, Series 1988 (the "Bonds") and terminated a related \$44.9 million Support Letter of Credit. Funds for the redemption were provided from \$2 million of unexpended funds held in escrow and the issuance of \$42 million principal amount of new senior unsecured Bonds bearing interest at a fixed rate of 7.90% and maturing October 1, 2005.

6. **Employee Benefit Plans**

Employees retiring prior to February 1, 1990 from the Company's U.S. tissue operations who have met certain eligibility requirements are entitled to postretirement health care benefit coverage. These benefits are subject to deductibles, copayment provisions, a lifetime maximum

benefit and other limitations. In addition, employees who retire after January 31, 1990, at age 55 or older with ten years of service may purchase health care benefit coverage from the Company up to age 65. The Company has reserved the right to change or terminate this benefit at any time. Prior to 1992, the annual cost of these benefits had been expensed as claims and premiums were paid. Employees of the Company's U.K. tissue operations are not entitled to Company-provided postretirement benefit coverage.

As of January 1, 1992, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standard requires that the expected cost of postretirement health care benefits be charged to expense during the years that employees render service. The cumulative effect on years prior to 1992 of adopting SFAS No. 106 is stated separately in the Company's consolidated condensed statement of income for the three months ended March 31, 1992 as a one-time after-tax charge of \$10.6 million. This change in accounting principle, excluding the cumulative effect, decreased operating income for the three months ended March 31, 1992 by \$0.3 million.

The following table sets forth the components of the plan's unfunded accumulated postretirement benefit obligation as of January 1, 1992 (in thousands):

Accumulated postretirement benefit obligation:	
Retirees	\$ (5,627)
Fully eligible active plan participants	(2,162)
Other active plan participants	<u>(9,287)</u>
Accrued postretirement benefit cost	<u>\$ (17,076)</u>

The medical trend rate assumed in the determination of the accumulated postretirement benefit obligation begins at 15% in 1992, decreases 1% per year to 7% for 2000 and remains at that level thereafter. Increasing the assumed medical trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of January 1, 1992 by \$2.4 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost of the first quarter of 1992 by \$0.1 million.

The discount rate used in determining the accumulated postretirement benefit obligation was 8% compounded annually.

7. Income Taxes

The Company has adopted SFAS No. 109, "Accounting for Income Taxes" effective January 1, 1992. The Company had previously adopted SFAS No. 96, "Accounting for Income Taxes" in 1988. As a result of the accounting change, the Company reclassified certain deferred tax benefits from long-term deferred income taxes payable to current assets in the accompanying 1992 consolidated condensed balance sheet. The Company has not recorded a valuation allowance with respect to this deferred income tax asset. The adoption of SFAS No. 109 had no effect on the Company's provision for income taxes for the three months ended March 31, 1992.

8. Legal Proceedings

The Company and its subsidiaries are parties to lawsuits and state and federal administrative proceedings incidental to their businesses. Although the final results in such suits and proceedings cannot be predicted with certainty, it is the present opinion of management that they will not have a material adverse effect on the Company's financial condition.

FORT HOWARD CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

First Quarter 1992 Compared to 1991

	<u>For the Three Months Ended March 31,</u>	
	<u>1992</u>	<u>1991</u>
	(In thousands, except percentages)	
Net sales		
Domestic Tissue	\$238,819	\$234,078
Other	<u>37,447</u>	<u>38,876</u>
Consolidated	<u>\$276,266</u>	<u>\$272,954</u>
Gross margins		
Domestic Tissue	40.8%	39.3%
Consolidated	38.4%	36.7%
Net loss	\$(27,979)	\$(26,772)

For the first quarter of 1992, the Company's net loss increased 4.5% to \$28.0 million from \$26.8 million in the first quarter of 1991. Excluding the effects of nonrecurring items consisting of changes in depreciable lives and an adjustment for an accounting change in 1992, described below, and equity earnings and an extraordinary item in 1991, the net loss in the first quarter of 1992 would have declined 10.3% compared to the first quarter of 1991.

The 2.0% increase in domestic tissue net sales in the first quarter of 1992 compared to 1991 was attributable to volume increases in the consumer and commercial markets, largely offset by lower net selling prices in the first quarter of 1992 compared to 1991. A progressive decline in commercial and consumer market selling prices occurred during 1991. Low industry operating rates and aggressive competitive activity among tissue producers resulting from the recession and additions to capacity in the industry adversely affected tissue industry operating conditions in 1991. These conditions and the lower selling prices persisted during the first quarter of 1992.

Net sales of the Company's United Kingdom tissue operations decreased 0.5% in the first quarter of 1992 compared to 1991 primarily due to the effects of lower exchange rates during the first quarter of 1992 compared to 1991 which offset volume increases experienced during the quarter.

Effective January 1, 1992, the Company prospectively changed its estimates of the depreciable lives of certain machinery and equipment. These changes were made to better reflect the estimated periods during which such assets will remain in service. As a result, the Company believes, based primarily on an analysis of publicly available information, that the lives over which the Company depreciates the cost of its operating equipment and other capital assets will more closely approximate industry norms. For the three months ended March 31, 1992, the change had the effect of reducing depreciation expense by \$9.9 million and reducing net loss by \$6.1 million. For the year, the effect of this change is expected to reduce depreciation expense by approximately \$42.0 million and net loss by \$26.0 million.

Domestic tissue gross margins increased in the first quarter of 1992 compared to 1991 primarily due to the reduced depreciation expense associated with the Company's change in its estimates of the depreciable lives of certain machinery and equipment offset in part by the decline in net selling prices.

Selling, general and administrative expenses, as a percent of net sales, increased to 9.4% in the first quarter of 1992 compared to 9.1% in 1991 principally due to the significant effects of the lower net selling prices on this relationship.

Interest expense declined almost \$12.0 million in the first quarter of 1992 compared to 1991. Debt repurchased with the proceeds of a private placement of common stock in 1991 reduced the Company's outstanding indebtedness in 1992 compared to 1991. Lower average interest rates, in part due to borrowings under the Company's Revolving Credit Facility to repurchase high yield subordinated debt, also contributed to lower interest expense.

Results for the first three months of 1991 were favorably impacted by an extraordinary gain of \$3.8 million (net of income taxes) related to the debt repurchases.

The Company's results in the first quarter of 1992 exclude any equity in the net losses of Sweetheart Holdings Inc. ("Sweetheart") for the period compared to equity in net losses totaling \$6.9 million recorded in the first quarter of 1991. The Company discontinued the recording of equity in the net losses of Sweetheart, an unconsolidated subsidiary, when its investment in Sweetheart was reduced to zero in the fourth quarter of 1991.

The income tax credits for the first quarters of 1992 and 1991 principally reflect the reversal of previously provided deferred income taxes.

As of January 1, 1992, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standard requires that the expected cost of postretirement health care benefits be charged to expense during the years that employees render service. The cumulative effect on years prior to 1992 of adopting SFAS No. 106 is stated separately in the Company's consolidated condensed statement of income for the three months ended March 31, 1992 as a one-time after-tax charge of \$10.6 million. This change in accounting principle, excluding the cumulative effect, decreased operating income for the three months ended March 31, 1992 by \$0.3 million.

Financial Condition

For the first three months of 1992, cash decreased \$3.1 million. Capital additions of \$40.8 million and debt repayments of \$192.6 million, principally for the retirement of the Company's 7% Notes and the redemption of \$44 million of variable interest rate Bonds (defined below), were funded by cash provided from operations of \$32.3 million, borrowings under the Company's Revolving Credit Facility of \$156.0 million and the issuance of \$42 million of fixed interest rate Bonds.

Effective March 2, 1992, the Company redeemed its \$44 million, variable interest rate, Development Authority of Effingham County Pollution Control Revenue Refunding Bonds, Series 1988 (the "Bonds") and terminated a related \$44.9 million Support Letter of Credit. Funds for the redemption were provided from \$2 million of unexpended funds held in escrow and the issuance of \$42 million principal amount of new senior unsecured Bonds bearing interest at a fixed rate of 7.90% and maturing October 1, 2005.

The Company has a Revolving Credit Facility under the Company's Bank Credit Agreement with a final maturity of December 31, 1996, which may be used for general corporate purposes. At March 31, 1992, the Company had \$119.0 million in available capacity under the Revolving Credit Facility.

PART II. OTHER INFORMATION

1. Legal Proceedings

None

2. Changes in Securities

None

3. Defaults Upon Senior Securities

None

4. Submission of Matters to a Vote of Security Holders

None

5. Other Information

None

6. Exhibits and Reports on Form 8-K

Exhibit No.

- 4.A Form of 12-3/8% Senior Subordinated Note Indenture dated as of November 1, 1988, between the Company and the State Street Bank and Trust Company, Trustee. (Incorporated by reference to Exhibit 4.1 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
- 4.B Form of 12-5/8% Subordinated Debenture Indenture dated as of November 1, 1988, between the Company and United States Trust Company, Trustee. (Incorporated by reference to Exhibit 4.2 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
- 4.C Form of 14-1/8% Junior Subordinated Discount Debenture Indenture dated as of November 1, 1988, between the Company and Ameritrust Company National Association, Trustee. (Incorporated by reference to Exhibit 4.3 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
- 4.D Form of 14-5/8% Junior Subordinated Debenture Indenture dated as of November 1, 1988, between the Company and Ameritrust Company National Association, Trustee. (Incorporated by reference to Exhibit 4.4 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
- 4.E Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.5 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)

Exhibit No.

- 4.F Amendment No. 1 dated February 21, 1989, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.E.1 as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1989.)
- 4.G Amendment No. 2 dated October 20, 1989, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.E.2 as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1989.)
- 4.H Amendment No. 3 dated November 13, 1989, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.E.3 as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1989.)
- 4.I Instrument of Designation, Appointment and Acceptance dated as of June 22, 1988, among the Company, Bankers Trust Company and Security Pacific National Bank. (Incorporated by reference to Exhibit 4.7 as filed with post-effective Amendment No. 2 to the Form S-1 of Fort Howard Corporation on February 8, 1990.)
- 4.J Amendment No. 4 dated November 9, 1990, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.J as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1990.)
- 4.K Amendment No. 5 dated as of December 19, 1990, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.K as filed with the Company's annual report on Form 10-K for the year ended December 31, 1990.)
- 4.L Amendment No. 6 dated as of September 11, 1991, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.A as filed with the Company's report on Form 8-K on September 13, 1991.)
- 4.M Form of Senior Secured Floating Rate Note Purchase Agreement dated as of September 11, 1991. (Incorporated by reference to Exhibit 4.B as filed with the Company's report on Form 8-K on September 13, 1991.)

Exhibit No.

4.N

Amendment No. 7 dated as of December 2, 1991, to Amended and Restated Credit Agreement dated as of October 24, 1988, and Amendment No. 1 dated as of December 2, 1991, to the Senior Secured Floating Rate Note Purchase Agreement dated as of September 11, 1991. (Incorporated by reference to Exhibit 4.N as filed with the Company's annual report on Form 10-K for the year ended December 31, 1991.)

NOTE: Pursuant to the provisions of paragraph (b)(4)(iii) of Item 601 of Regulation S-K, the registrant hereby undertakes to furnish to the Commission upon request copies of the instruments pursuant to which various entities hold long-term debt of the registrant or its consolidated or unconsolidated subsidiaries, none of which instruments govern indebtedness exceeding 10% of the total assets of the registrant and its subsidiaries on a consolidated basis.

- b) No reports on Form 8-K were filed by the Company during the quarter for which this report is filed.

FORT HOWARD CORPORATION

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORT HOWARD CORPORATION

Registrant

May 11, 1992

Kathleen J. Hempel
Kathleen J. Hempel, Vice Chairman and
Chief Financial Officer

May 11, 1992

James H. Neillen II
James H. Neillen II, Vice President and
Secretary

May 11, 1992

Charles L. Szews
Charles L. Szews
Controller / Principal Accounting Officer